BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING
(PROPOSAL FIVE)

Docket No. RM2018-8

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES
IN ANALYTICAL PRINCIPLES (PROPOSAL FIVE)
(June 26, 2018)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the

Commission initiate a rulemaking proceeding to consider a proposal to change

analytical principles relating to the Postal Service's periodic reports. The proposal,

relating to changing the costing methodology for the treatment of International Inbound

letter post products in order to develop separate costs for 1) letter- and flat-shape letter

post products, and 2) packet-shape letter post products, is labeled Proposal Five and is

discussed in detail in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**PROPOSAL FIVE: Proposed Changes to the Reporting Methodology for Inbound Letter Post Products and Implementation of Structural Changes for Outbound Letter Post Products
(Letters/Flats and Packets)**

OBJECTIVE:

The Postal Service proposes to change the costing methodology for the treatment of International Inbound letter post products in order to develop separate costs for 1) letter- and flat-shape letter post products, and 2) packet-shape letter post products. Additionally, the Universal Postal Union (UPU) changes described below affect both Inbound settlement revenue and Outbound settlement expenses. The UPU changes do not affect the Outbound costing methodology, but they do require an expansion of the Outbound settlement calculations. As a secondary matter, the mechanics of how shape-based settlement expenses will be incorporated into the International Cost and Revenue Analysis (ICRA) report are included with the proposal.[1]

INBOUND PROPOSAL

BACKGROUND:

This proposal was drafted taking into consideration the following three related concerns.

First, the proposal responds to the developing letter post environment, particularly, the growth of the packet-shape portion. As of January 1, 2018, the UPU implemented "format" (shape) based terminal dues rates. The UPU uses three type of formats to describe individual items using French terms: (1) Petit (P) for small letters

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[1] Note that the expansion of the Outbound settlement calculations would have been necessary for FY 2018 even in the absence of the instant proposal regarding separate costs by shape for Inbound Letter Post. Details of that expansion are provided with this filing merely for the sake of completeness (i.e., in order to provide a more representative context within which the Inbound proposal may be evaluated).

("Letters"), (2) Grand (G) for large letters ("Flats"), and (3) Encombrant (E) for

bulky/packets ("Packets) (collectively referred to as "Item Formats"). These Item

Formats provide the basis upon which large volume designated operators of countries

in the terminal dues target system are required to create two[2] or three separate

dispatches by format ("Dispatch Formats"). The new terminal dues rates apply to the

Dispatch Formats, and include one combined rate for letter and flat dispatches, and

another rate for packet dispatches. Smaller volume designated operators in the target

system and designated operators of countries in the terminal dues transition system

may send and receive format-separated mail on an optional basis. For dispatches that

are not separated by format ("Mixed"), the UPU also has a Dispatch Format rate for

Mixed.[3]

Second, this proposal addresses the issue raised in the Postal Service's

response in Docket No. ACR2017 to the Chairman's Information Request No. 10,

Question 6, filed February 2, 2018.[4] In that response, the Postal Service relied on

supplemental shape information from the financial workpapers underlying some bilateral

agreements to explain the year-to-year changes in letter post cost. The shape

information revealed that packet-shape volume and weight saw material increases in

volume and weight, while the letters and flats volume and weight decreased.

Following up on that response, Chairman's Information Request No. 18,

Question 1 asked why the shape information had not been incorporated into the ICRA.

The Postal Service explained that the shape-based cost ratios in the bilateral

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[2] For some designated operator groups, the letters and flats may be combined into one dispatch, described as a mix of letters and flats (S).
[3] Unseparated Mixed dispatch rates are denoted as X.
[4] Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 10, Docket No. ACR2017, February 2, 2018, Response to Question 6.

workpapers could not be applied to the ICRA without additional data and development, which was ongoing at the time of the response (February 20, 2018). The Postal Service indicated that its plan was to complete its investigation and file this proposal during FY 2018.[5]

Third, this proposal responds to the Postal Regulatory Commission's directive concerning Inbound Letter Post on page 69 of its Annual Compliance Determination, as quoted below:

> *The Commission finds that FY 2017 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission directs the Postal Service, within 90 days, to submit an update on its collection of accurate shaped-based data, and development of costing models for Inbound Letter Post using this shape-based data if it has not yet filed a rulemaking proposal to implement shape-based costing for Inbound Letter Post in the Domestic Processing Model and the ICRA.*

PROPOSAL:

Proposal Five would replace the current aggregated development of letter post costs in the ICRA with the development of separate inbound costs based upon the item format for 1) letter- and flat-shape items and 2) packet-shape items. The current ICRA reporting format would remain the same, but the aggregated costs shown on the individual ICRA lines would be the sum of the separately-developed letter/flat-shape and packet-shape costs.

RATIONALE:

The current methodology neither aligns with what is now the UPU terminal dues rate structure, nor allows for the more detailed analysis necessary to respond to

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[5] Response of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 18, Docket No. ACR2017, February 20, 2018, Response to Question 1.

inquiries such as those in Chairman's Information Requests in ACR 2017. While not legally required, the proposal will provide a better basis to analyze the impacts of the new UPU terminal dues rate structure and the different letter/flat-shape versus packet-shape characteristics, such as the unequal growth rates.

IMPACT:

The differences that arise from the modifications discussed below in the Mechanics section are presented in the non-public Excel file "Attachment 1.xls" filed under seal as part of USPS-RM2018-8/NP1. Attachment 1 consists of 18 tabs: three section separator sheets with brief descriptions, the five ICRA summary tables, five tables for the proposed shape-based methodology, as well as five tables of differences relative to the results filed in USPS-FY17-NP2. The two sets of ICRA alternatives are labeled as follows:

- the "status quo" is represented by the Summary and A and B Pages from Reports (Unified) as filed in USPS-FY17-NP2 (tab names consisting of report name appended with " ACR"), and

- the "proposed" scenario is represented by corresponding A and B Pages arising from the current proposal (tab names consisting of report name appended with "Proposed");

Two sets of tabs (appended by "Diff") show the cell-by-cell differences between the reports appended by "Diff" representing differences between the Proposed methodology and the ACR.

MECHANICS:

To implement the three areas of concerns in the Background section above, the ICRA needs information to develop inbound packet costs and revenues separate from the remainder of inbound letter post. Data are provided from the Foreign Payment System (FPS), TRACS and the Domestic Processing Model. In the ICRA, affected sheet tabs are shaded in green (tabs changed in Reports (Unified) for both inbound flows and U.S. Origin outbound flows are shaded a tan color), and the expanded/altered calculation cells appear in the same green shade.

The shape-based revenues for inbound letter post products are provided directly by the FPS. The reallocated FPS data are provided in the RPW-Carwash for ICRA-FY17 data(4'23'18)-.xlsx under the FPS Inbound Inputs folder of Supporting Files, under Data as Received. These data have been incorporated into FPS Inbound Inputs.xlsb which are then incorporated into the ICRA via Inputs.xls.

The changes to FPS affect the following workbooks and sheets:

- FPS_Inbound_Inputs.xlsb, sheets were added to separate packets from letters and flats ALC_E, ALC_E_PQ1, ALC_E_PQ2, ALC_E_PQ3, ALC_E_PQ4, SAO_E, SAO_E_PQ1, SAO_E_PQ2, SAO_E_PQ3, and SAO_E_PQ4. For ICRA 2018 the following sheets will be deleted ALC, ALC_PQ1, ALC_PQ2, ALC_PQ3, ALC_PQ4, SAO, SAO_PQ1, SAO_PQ2, SAO_PQ3, and SAO_PQ4.

- Inputs.xls – sheets Inbound Air KG CY1, Inbound Air KG CY2, Inbound Surf KG CY1, Inbound Surf KG CY2 included expanded inputs.

Sheets Inbound SAL KG CY1 and Inbound SAL KG CY2 are consolidated with the surface sheets and will be removed for ICRA 2018.

- Inbound Calcs.xls -- Vol1, Vol2, Vol, KG1, KG2, KG and TD Booked sheets have expanded calculations. Sheets TD1, TD2, TD3, TD4 and TD are not needed for ICRA production and will be removed for ICRA 2018.

- Reports (Unified).xls – Sheets ICRA Database (Columns AF:AI), Intermediate (Columns AF:AI), both starting at the Foreign Origin section in row 614.

Expanded TRACS distribution keys to separate inbound packets from letters/flats were provided and processed into a format for the Distribution Keys sheet of Inputs.xls in the workbook Key Inputs for ICRA 17 Shape Carwash.xls. These distribution keys affect:

- Inputs.xls – Distribution keys, blocks of rows beginning at 16, 49, 81, and 113

- Domestic Tran Calcs.xls, sheet wcuf selected rows in the Foreign section at cell B32, and transfers to columns P through S and U through X. All other sheets, columns P through S and U through X.

- Reports (Unified).xls – CS14 Staging, columns O to R and T to W.

Further changes to the Domestic Processing Model (see the following section for additional details) provide data for relevant international Cost Segments. These are provided under Supporting Files in the CRA Cost Segments folder in the file

FY17ICRA.ShapeCarwash.CRpt.xlsx.   The data are copied directly into Inputs.xls on the CRA Cost Segments sheet and affected workbooks are:

- Inputs.xls – CRA Cost Segments, rows 34 to 37 and 41 to 44
- Reports (Unified).xls – CRA Staging, selected rows in the table at cell G5, rows 73 to 76 and 78 to 81, changes in the Foreign Origin table at cell AO73.

Domestic Processing Model (DPM): The DPM filed as USPS-FY17-NP4 is modified to incorporate separate letter/flat and packet costs for Inbound Letter Post. The table below shows the USPS-FY17-NP4 class lines as filed in the left section and the proposed class lines in the right section. The proposal is to change what had previously been four categories:

1) all surface shapes for Canada,

2) all surface shapes for Rest of World,

3) all air shapes for Canada,

4) all air shapes for Rest of World,

to eight categories:

1) surface letter/flat for Canada,

2) surface letter/flat for Rest of World,

3) surface packet for Canada,

4) surface packet for Rest of World,

5) air letter/flat for Canada,

6) air letter/flat for Rest of World,

7) air packet for Canada,

8) air packet for Rest of World.

The shaded areas show the impacted classes. Class numbers 72, 182, 77 and 187 are reused with different names and class numbers 75, 185, 78 and 178 are new class numbers.

Foreign Origin - Surface	
LC/AO Canada	72
LC/AO Rest of World	182
Foreign Origin - Air	
LC/AO Canada	77
LC/AO Rest of World	187

Foreign Origin - Surface	
LC/AO Canada -- Letters and Flats	72
LC/AO Rest of World -- Letters and Flats	182
LC/AO Canada -- Packets	75
LC/AO Rest of World -- Packets	185
Foreign Origin - Air	
LC/AO Canada -- Letters and Flats	77
LC/AO Rest of World -- Letters and Flats	187
LC/AO Canada -- Packets	78
LC/AO Rest of World -- Packets	178

New DPM inputs using the proposed format are provided in ICRA17PRC.ShapeCarwash.xls, ICRAEQUIP.FLATFY17_Shape-Based.xls and DPM RPW May 15.xls. The tabs that changed are highlighted in yellow in ICRA17PRC.ShapeCarwash.xls, and the columns that changed in those tabs are also highlighted in yellow. The yellow highlights contrast with the blue highlighted tabs and columns that did not change. Class lines changed throughout the model, but in those cases where only the class names changed, the tabs are highlighted in blue. While most of the tabs changed, the impact is limited to only Foreign Origin classes.

The DPM was run using the new formats and inputs to generate the routine I, A, B, F, K and C files and reports files. The new C Report was used to run the proposed ICRA model as the new tab, CRA Cost Segments, in the Inputs.xls file described in the next section.

The UPU formats Letter and Flats (P and G), Packets (E) and Mixed (X) are dispatch formats assigned by the foreign postal operator and on which terminal dues

are paid. The terminal dues dispatch format, though, cannot be used directly to develop costs in the ICRA. First, Dispatch Format streams will consist primarily, but not entirely, of mail pieces with the same Item Format. In addition, although diminishing significantly in 2018 as a result of the new rate structure, the Mixed Dispatch Format will continue into the future for small-volume target system operators and most of the transitional system operators.

Second, the UPU Item Format definitions are not entirely consistent with the formats recognized by data collectors in the Postal Service costing data systems. For instance, UPU letters are smaller (6.5" X 9.5" versus 6.125" x 11.5" in our systems with the same weights) and UPU flats can be heavier (17.6 ounces versus 13 ounces with the same dimensions).

This proposal incorporates an adjustment to the dispatch format data to minimize the effects of the small UPU dispatch format and Postal Service item format differences. RPW data by Dispatch Format are distributed to the Item Formats proportionally by pieces and weight using estimates from the System for International Revenue and Volume, Inbound (SIRVI).[6] The revenue by Dispatch Format is then distributed to the Item Formats based upon the Dispatch Format's average revenue per pound.

As a result of the above, the pieces and weight by Item Format in the ICRA will reflect the Item Formats received in all Dispatch Format streams (i.e., packet items that traveled in the letter, flat, packet, and mixed Dispatch Format streams). The revenue will represent blended Item Format revenues across the three terminal dues rate categories (i.e., the letter/flat, packet, and mixed rates). As part of the RPW

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[6] SIRVI was described in USPS-FY11-NP5 (FY 2011 ICRA Overview/Technical Description; Chapter 8)

Reconciliation tab of the Reports (Unified) workbook, a crosswalk will be provided to help explain the differences.

ICRA Model:

The DPM data from the CRA Cost Segments input table are utilized in Reports (Unified).xls.

OUTBOUND IMPLEMENTATION

Letter Post is offered through a number of Postal Service International Outbound mail categories, and the following narrative is provided to explain the ICRA treatment of Outbound Letter Post to reflect the shape-based UPU terminal dues regime that began in January 2018. Outbound Letter Post is offered through the following ICRA mail categories:

Market Dominant: Outbound Single-Piece First-Class Mail

Competitive: First-Class Package International Service
International Priority Airmail (IPA)
International Surface Airlift (ISAL)

For purposes of the ICRA, the appropriate terminal dues rate by country will be applied to the country's Outbound Letter Post volume by content shape as provided in the RPW SIRVO data. The RPW System for Outbound Revenue, Pieces and Weight (SIRVO) data provides the Dispatch Format used for terminal dues settlement and the content shapes within those Dispatch Formats. As such, this treatment reflects Postal Service terminal dues expenses under the new UPU shape-based rate structure. This is the only change necessary for Outbound Letter Post, because the Processing,

Delivery, Other, Domestic Transportation and International Transportation costs for the ICRA mail categories are unaffected by the changes to terminal dues expenses.

MECHANICS:

To implement shape-base terminal dues settlement rates for Outbound products, changes were made to extend the UPU settlement tables to include additional rates separating packets from letters and flats. These changes were implemented using non-shape settlements in place during the ICRA 2017, so the mechanics are added, but the results are unchanged. For the changes required for outbound settlements, tabs are now shaded a purple hue, and affected cells the same color.

Three workbooks are affected:

- Inputs.xls – sheets UPU Rates CY1 and UPU Rates CY2. The tables between columns B and K are now extended through column Y to include rates for Letters & Flats, Packets and Undifferentiated.

- Outbound Calcs.xls – sheets related to settlements were adjusted to give separate terminal dues calculations for FCPIS versus FCMI letters & flats as well as new columns for IPA and ISAL packets (the previous ISAL and IPA columns now model the letters & flats mail). Separations of transportation costs and air conveyance costs for packets are made in columns D and H on sheets airal, tran, trair1, trair2 and trair. Sheet tdu has an expanded section from column W through AW to calculate terminal dues for ISAL/IPA letters & flats, ISAL/IPA packets and FCPIS. Sheets tdu1p, tdu2p, tdu1w and tdu2w all have parallel product adjustments in columns D, M, R, and S; and rates split in columns Y, Z, AB and AC (the

rates are in columns X, Y, Z and AA on the tdu1w and tdu2w sheets) to reflect different settlement rates. Sheets trnadj, Final RPW and RPWDataServer have additions to allow splitting ISAL and IPA into packets and letters and flats. Trnadj includes additional row entries for ISAL and IPA packets (format E), but these are currently not populated.

- Reports (Unified).xls – the Intermediate and ICRA Database sheets have been expanded for IPA packets and ISAL packets in columns V and AL, respectively. Columns X and Z now represent IPA and ISAL letters & flats respectively. Sheets CRA Staging and CS14 Staging both include entries for ISAL and IPA packets for simplified final calculations, even though there is no distinction of the domestic costs between ISAL and IPA letters & flats versus packets. Sheet B Pages (c) has four additional tables added for ISAL Letters & Flats, IPA Letters & Flats, ISAL Packets, and IPA Packets. From rows 344 to 475 summary tables and computation staging areas have been added. The data in these new summary tables are used to calculate weighted averages in the ISAL and IPA tables in rows 127 to 176, columns N, O, and R, and are ultimately sent to the sheet Unit Cost Staging. Sheet Unit Cost Staging provides costs to the ICM Costing Module and has been expanded to separate letters & flats from packets for ISAL and IPA. Sheet pivot5 includes additional rows from the ICM Costing Module for ISAL and IPA packets, which are aggregated with letters & flats for reporting.

- ICM Costing Module sheets Data and Data from ICRA and Data for ICRA have been adjusted both to split the NSA ISAL and IPA mail between letters

& flats versus packets as well as to reflect unit costs for settlements by shape will be required. To support the modeling structure the sheet Entry Level Discount Factors was expanded to include packets for ISAL and IPA split from letters & flats.